

**L'ANSE AREA SCHOOLS**

**L'ANSE, MICHIGAN**

**FINANCIAL STATEMENTS**

**WITH SUPPLEMENTAL FINANCIAL INFORMATION**

**June 30, 2005**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
L'Anse Area Schools  
L'Anse, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of L'Anse Area Schools as of and for the year then ended June 30, 2005, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of L'Anse Area Schools's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Michigan School Auditing Manual*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of L'Anse Area Schools as of June 30, 2005, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 15, 2005 on our consideration of L'Anse Area Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

The management's discussion and analysis and budgetary comparison information on pages 6 through 12 and 34, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express any opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise L'Anse Area Schools' basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Other Supplemental Financial Information listed in the table of contents and the accompanying schedule of expenditures of federal awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for the purposes of additional analysis and are not a required part of the general purpose financial statements of the L'Anse Area Schools. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Bruce A. Rukkila, CPA, PC*

Certified Public Accountants

September 15, 2005

This section of L'Anse Area Schools annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2005. Please read it in conjunction with the School District's financial statements, which immediately follows this section.

### **Financial Highlights**

Due to Michigan's continuing financial difficulties, the 2004-05 school year was the third straight year without an increase in the state aid foundation allowance. Enrollment has been gradually increasing due to families moving into the area creating a positive effect to the district revenue. The district has been able to offset some of the increased costs for health insurance, pension costs, utilities costs and other cost increases by hiring teachers with less experience and education to replace retirees. This does impact education both positively and negatively. The district has a less experienced staff, however, new concepts of teaching provide for positive change in the methods used to provide education to the students.

The district has been able to maintain its technology infrastructure with the purchase of new teacher computers this year. Computers replaced by this purchase have been used to supplement classrooms and replace existing computers which no longer function. In addition, we were able to purchase a school bus without financing.

### **Overview of the Financial Statements**

The annual report consists of a series of financial statements including other requirements as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The Government-wide Financial Statements consists of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the District as a whole and represent an overall view of the District's finances.

#### *Statement of Net Assets and the Statement of Activities*

These statements provide information that help determine how the District is doing financially as a result of the year's activities. The statements are shown using a full accrual basis.

The District's net assets and the changes in the net assets during the year are reported by these two statements. Increases or decreases in the District's net assets is one way to determine if the financial position of the District is improving or deteriorating. However, non-financial factors will need to be considered as well to determine the overall financial position of the District.

- The Statement of Fiduciary Net Assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

## **Overview of the Financial Statements - Continued**

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

- Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. These statements also report the District's operations in more detail than the Government-wide Financial Statements by providing information about the most significant funds.

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Funds, Capital Project Fund, School Food Service, Community Services and Athletics funds.

Major Funds: Under GASB Statement 34, the audit focus has shifted from type of governmental fund to major funds. Major funds are the largest funds in terms of assets, liabilities, revenues or expenses/expenditures. This allows the reader to see more detailed activity of the major funds. For the District, the General Fund and Debt Retirement Fund meet this requirement.

Non-major Funds: In the basic financial statements, non-major funds are consolidated into one column. These are smaller funds. Detailed information about non-major funds can be found after the notes to the financial statements.

- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information, other than Management Discussion and Analysis, provides information about the required budgetary comparison information on the general fund.
- Other supplementary information provides detailed information about the General, Capital Projects, School Food Service, Community Services and Athletic Funds.

**L'Anse Area Schools**  
**Management's Discussion and Analysis**  
**June 30, 2005**

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**Summary of Net Assets**

	2005	2004
<b>Assets</b>		
Current and other assets	\$ 2,197,940	\$ 1,712,176
Restricted investments	402,464	357,583
Capital assets - Net of accumulated depreciation	7,959,696	8,149,463
Total Assets	<u>\$10,560,100</u>	<u>\$10,219,223</u>
<b>Liabilities</b>		
Current liabilities	\$ 1,985,872	\$ 1,296,548
Long-term liabilities	9,290,143	9,436,781
Total Liabilities	<u>11,276,015</u>	<u>10,733,329</u>
<b>Net Assets</b>		
Invested in property and equipment - net of related debt	(972,256)	(1,044,841)
Restricted	407,651	364,609
Unrestricted	(151,310)	166,126
Total net assets	<u>(715,915)</u>	<u>(514,106)</u>
Total Liabilities and Net Assets	<u>\$10,560,100</u>	<u>\$10,219,223</u>

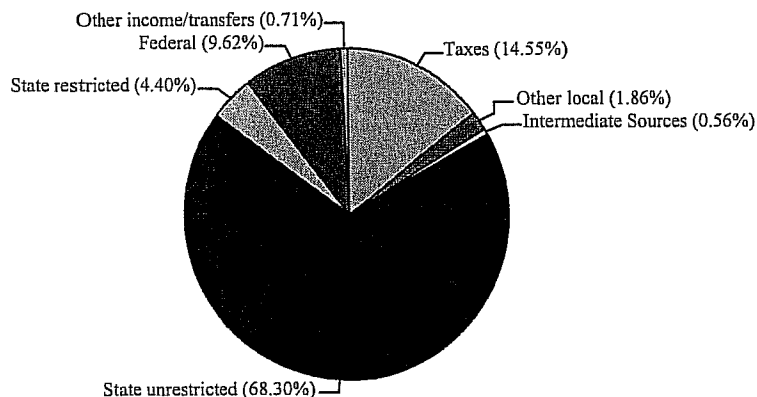
**Results of Operations in Governmental Activities**

	2005	2004
<b>Program Revenue:</b>		
Charges for services	\$ 141,659	\$ 130,582
Grants and contributions	1,154,465	1,158,790
<b>General Revenue:</b>		
Property taxes	1,585,489	1,555,850
State foundation allowance	4,388,815	4,264,170
Other	(26,012)	115,650
Total Revenue	<u>7,244,416</u>	<u>7,225,042</u>
<b>Functions/Program Expenses</b>		
Instruction	4,277,879	4,292,992
Support services	2,216,798	2,137,922
Capital projects	26,351	10,479
School food services	248,039	227,295
Athletics	147,211	120,715
Community services	99,046	104,282
Interest on long-term debt	428,241	507,796
Other debt	2,660	1,147
Total Expenses	<u>7,446,225</u>	<u>7,402,628</u>
Change in Net Assets	(201,809)	(177,586)
Net Assets - Beginning	(514,106)	(336,520)
Net Assets - Ending	<u>\$ (715,915)</u>	<u>\$ (514,106)</u>

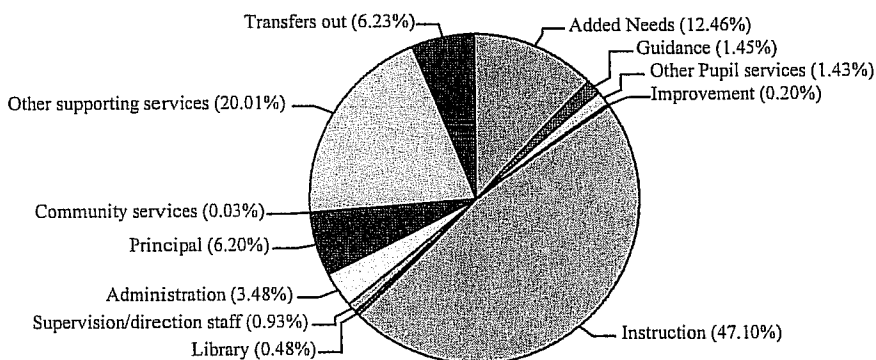


The following charts highlight the District's General Fund activities:

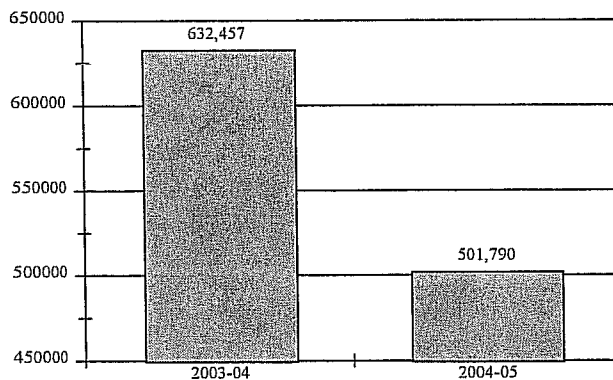
### 2004-05 Revenues



### 2004-05 Expenditures



### Fund Balance Comparison



**L'Anse Area Schools**  
**Management's Discussion and Analysis**  
**June 30, 2005**

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**Significant Transactions and Changes in Individual Funds**

The overall financial position of the individual Governmental funds of the District did not change significantly from the previous year. A comparison of revenues/transfers, expenditures/transfers and fund balances is as follows:

	Current Year	Prior Year	Change
General Fund:			
Revenues/Transfers	\$ 6,426,153	\$ 6,261,958	\$ 164,195
Expenditures/Transfers	\$ 6,556,820	\$ 6,379,465	\$ 177,355
Fund Balance	\$ 501,790	\$ 632,457	\$ (130,667)
Debt Retirement Fund:			
Revenues/Transfers	\$ 736,295	\$ 704,683	\$ 31,612
Expenditures/Transfers	\$ 693,253	\$ 683,684	\$ 9,569
Fund Balance	\$ 407,651	\$ 364,609	\$ 43,042
Capital Projects Fund:			
Revenues/Transfers	\$ 477	\$ 1,871	\$ (1,394)
Expenditures/Transfers	\$ 26,351	\$ 10,479	\$ 15,872
Fund Balance	\$ 16,160	\$ 32,309	\$ (16,149)
Community Service Fund:			
Revenues/Transfers	\$ 103,191	\$ 108,434	\$ (5,243)
Expenditures/Transfers	\$ 103,191	\$ 108,434	\$ (5,243)
Fund Balance	\$ 0	\$ 0	\$ 0
School Food Service Fund:			
Revenues/Transfers	\$ 262,590	\$ 247,515	\$ 15,075
Expenditures/Transfers	\$ 255,000	\$ 230,141	\$ 24,859
Fund Balance	\$ 76,963	\$ 69,373	\$ 7,590
Athletic Fund:			
Revenues/Transfers	\$ 141,755	\$ 115,154	\$ 26,601
Expenditures/Transfers	\$ 141,753	\$ 115,257	\$ 26,496
Fund Balance	\$ 0	\$ (2)	\$ 2

General Fund - The main increase in revenue of \$96,329 is related to the increase in students and state aid. This year was the first of three years that the \$6,700 foundation allowance was not prorated to schools. Local revenues received included funding from the Keweenaw Bay Indian Community of \$35,910 in 2% Casino funding. Tax revenue also increased for the 2004 - 2005 year in the amount of \$22,115. There was a decrease in instructional expenditures of \$188,061 mainly due to replacement of retirees with new staff at a reduced cost. A middle school administrator was hired causing an increase in school administration of \$48,294. The purchase of a bus and numerous computers increased the cost of other support services by \$87,067. Other transfers increased by \$189,978.

Debt Service Fund - The Debt Service Fund collects property taxes and receives interest earnings on bank deposits to finance the payment of interest and principal on bond issue-related debt of the District.

Capital Projects Fund - The Capital Projects Fund holds funds remaining from the 1998 building project. The funds have been used to continue completing purchases and improvements remaining following the main project. In the future the Fund will be used for the purpose of setting aside money from the General Fund for future capital purchases, e.g. building repairs/improvements, and technology updates. By doing this, when a major capital purchase is needed, all the money does not have to come out of the General Fund at one time.

### **Significant Transactions and Changes in Individual Funds (Continued)**

Community Service: The Community Service fund is used to maintain the Public Library. Funds received from local sources and State sources supplement funds provided by the General Fund.

School Food Service Fund - The Food Service program for the District has transferred funds to the General Fund to cover utility costs in recent years.

Athletic Fund - The Athletic Fund is supported primarily by operating transfers from the General Fund. This fund also collects revenues in the form of gate receipts.

### **Changes to Budget and Comparison to Actual Results**

The adoption of the original budget is required prior to the beginning of the fiscal year by State law. For the fiscal year ended June 30, 2005, the original budget was adopted on June 28, 2004. Since the original budget is adopted two months before school is in session, we often have many unknowns such as the number of students we will have for the year. Since much of the District's revenue is determined based on the number of students enrolled, this unknown could have a significant impact on the budget. Often there are a number of unforeseen events that occur throughout the year that impact the budget and/or cause budget variances, therefore the District amended it's budget twice during the fiscal year. The significant variances for the fiscal year ended June 30, 2005 are as follows:

#### *Changes from Original Budget to Final Budget*

Local Sources:	Minimal Change
State sources:	\$104,612 increase in revenue of State Aid due to increased student numbers and At Risk allocation increases.
Federal sources:	\$106,680 increase in revenue of Impact Aid and Federal Grant carry over not previously included in the budget.
Instruction:	\$132,505 increase in cost of staff hired versus what was anticipated in the original budget when replacing retirees.
Supporting Services:	\$41,377 increase mainly due to the addition of one administrator at the middle school level. Staff hours were reduced at the middle school administrative level to help offset this addition..

#### *Variances between Final Budget and actual amounts.*

Local Sources:	\$30,393 increase in revenue greatly in part due to local miscellaneous revenue and contributions.
State Sources:	\$55,587 decrease in revenue of mostly At Risk funds which were deferred.
Federal Sources:	\$22,523 decrease in revenue of grants which were carried over to the 2005 - 2006 school year.
Instruction:	\$57,258 decrease which enabled the district to carry over grants to the following year.
Supporting Services:	\$18,784 decrease due to an overall attempt at cost reduction.

## **Capital Assets and Debt Administration**

Capital Assets: The District's net investment in capital assets decreased by \$3,958 during the fiscal year. The additions were two buses, a copier, and two security systems. They disposed of two buses. No debt was issued for these additions.

Additional information on the District's capital assets can be found on page 25 of this report.

Long-term Debt: At the end of the current fiscal year, the District's total debt was \$8,859,045. This total amount is backed by the full faith and credit of the District. The District's total debt was decreased by \$265,000 during the fiscal year and the accrued interest was increased by \$2,648.

Additional information on the District's long-term debt can be found on page 26 of this report.

## **Known Facts, Decisions, or Conditions Having Significant Affect on Future Operations**

Our elected officials and administration consider many factors when setting the School District's fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil.

State revenues received by Michigan school districts are approved annually in a State Aid Act. This Act was approved by the State Legislature prior to the beginning of the school year and provides a foundation amount (amount per student) of \$6,875 for the 2005-06 school year. This will be the first increase in three years.

Approximately 85 percent of total General Fund revenues are from the foundation allowance. Under State law, the School District cannot assess additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations.

## **Contacting the District's Financial Management**

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, L'Anse Area Schools.

**L'ANSE AREA SCHOOLS**  
**STATEMENT OF NET ASSETS**

**June 30, 2005**

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 504,557
Investments	595,736
Taxes receivable	71,396
Accounts receivable	22,347
Inventory	52,091
Prepaid expense	24,323
Due from other governmental units	922,964
Due from scholarship fund	4,600
TOTAL CURRENT ASSETS	<u>2,198,014</u>
NON-CURRENT ASSETS:	
Restricted cash	402,464
Capital assets	9,963,992
Less: Accumulated depreciation	<u>(2,004,296)</u>
Net Capital Assets	<u>7,959,696</u>
TOTAL NON-CURRENT ASSETS	<u>8,362,160</u>
TOTAL ASSETS	<u>\$ 10,560,174</u>
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	\$ 42,015
Accrued expenses	495,455
Accrued interest	72,907
Deferred revenue	284,139
Due to other government units	768,857
Due to scholarship fund	500
Other liabilities	6,948
Bonds payable within one year	315,125
TOTAL CURRENT LIABILITIES	<u>1,985,946</u>
NON-CURRENT LIABILITIES:	
Bonds payable, due in more than one year	8,543,920
Compensated absences	746,223
TOTAL NON-CURRENT LIABILITIES	<u>9,290,143</u>
TOTAL LIABILITIES	<u>11,276,089</u>
NET ASSETS:	
Invested in capital assets, net of related debt	(972,256)
Restricted for debt service	407,651
Unreserved	<u>(151,310)</u>
TOTAL NET ASSETS	<u>(715,915)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,560,174</u>

The accompanying notes to the financial statements are an integral part of this statement.

**L'ANSE AREA SCHOOLS**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2005**

	<u>Program Revenues</u>			<u>Governmental Activities</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
<b><u>FUNCTIONS/PROGRAMS</u></b>				
Government Activities:				
Instruction and instructional support	\$ 4,277,879	\$ 12,201	\$ 915,080	\$ (3,350,598)
Support services	2,216,798	-	-	(2,216,798)
Capital Projects	26,351	-	-	(26,351)
School food service	248,039	98,361	163,144	13,466
Athletics	147,211	30,820	5,536	(110,855)
Community services	99,046	277	49,624	(49,145)
Interest on long-term debt	428,241	-	-	(428,241)
Other debt service	2,660	-	21,029	18,369
Total Governmental Activities	<u>\$ 7,446,225</u>	<u>\$ 141,659</u>	<u>\$ 1,154,413</u>	<u>(6,150,153)</u>
General Revenues:				
Taxes				
Property taxes, levied for general operations				934,866
Property taxes, levied for debt service				612,254
Other taxes				38,369
State school aid - unrestricted				4,388,815
Interest and investment earnings				22,744
Other				122,792
Transfers				<u>(171,496)</u>
Total general revenues and transfers				<u>5,948,344</u>
Change in Net Assets				(201,809)
Net Assets - Beginning				<u>(514,106)</u>
Net Assets - Ending				<u>\$ (715,915)</u>

The accompanying notes to the financial statements are an integral part of this statement.

**L'ANSE AREA SCHOOLS**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**

**June 30, 2005**

	General	Debt Service Fund	Other Non-major Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and cash equivalents	\$ 414,607	\$ -	\$ 89,950	\$ 504,557
Investments	595,736	-	-	595,736
Taxes receivable	43,113	28,283	-	71,396
Accounts receivable	13,898	-	8,449	22,347
Prepaid expense	24,323	-	-	24,323
Inventory	48,738	-	3,353	52,091
Due from other governmental units	893,500	-	29,464	922,964
Due from scholarship fund	4,600	-	-	4,600
Due from other funds	23,976	-	-	23,976
Restricted cash	-	402,464	-	402,464
<b>TOTAL ASSETS</b>	<b>\$ 2,062,491</b>	<b>\$ 430,747</b>	<b>\$ 131,216</b>	<b>\$ 2,624,454</b>
LIABILITIES:				
Accounts payable	\$ 34,295	\$ -	\$ 7,720	\$ 42,015
Accrued expenses	487,411	-	8,044	495,455
Due to other funds	-	1,647	22,329	23,976
Due to scholarship fund	500	-	-	500
Due to other government units	768,857	-	-	768,857
Deferred revenue	262,690	21,449	-	284,139
Other liabilities	6,948	-	-	6,948
<b>TOTAL LIABILITIES</b>	<b>1,560,701</b>	<b>23,096</b>	<b>38,093</b>	<b>1,621,890</b>
FUND BALANCES:				
Reserved	-	407,651	-	407,651
Unreserved	501,790	-	93,123	594,913
<b>TOTAL FUND BALANCES</b>	<b>501,790</b>	<b>407,651</b>	<b>93,123</b>	<b>1,002,564</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,062,491</b>	<b>\$ 430,747</b>	<b>\$ 131,216</b>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	7,959,696
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.	(9,605,268)
Accrued interest is not included as a liability in governmental funds	(72,907)
Net assets of governmental activities	<u>\$ (715,915)</u>

The accompanying notes to the financial statements are an integral part of this statement.

**L'ANSE AREA SCHOOLS**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2005**

	General Fund	Debt Service Fund	Other Non-major Governmental Funds	Totals
REVENUES:				
Local sources	\$ 1,054,654	\$ 663,791	\$ 139,185	\$ 1,857,630
Intermediate sources	35,910	-	-	35,910
Unrestricted Political Subdivision	-	21,029	39,788	60,817
State sources	4,671,504	-	16,917	4,688,421
Federal sources	618,176	-	154,958	773,134
Total revenues	6,380,244	684,820	350,848	7,415,912
EXPENDITURES:				
Instruction	3,905,691	-	-	3,905,691
Supporting services	2,242,935	-	-	2,242,935
Debt service	-	428,253	-	428,253
Capital projects	-	-	26,351	26,351
School service	-	-	241,294	241,294
Athletics	-	-	141,753	141,753
Community services	-	-	99,046	99,046
Total expenditures	6,148,626	428,253	508,444	7,085,323
Excess (deficiency) of revenue over expenditures	231,618	256,567	(157,596)	330,589
OTHER FINANCING SOURCES (USES):				
Operating transfers in (out)	(179,219)	51,475	143,459	15,715
Incoming transfers - other schools	45,909	-	-	45,909
Transfers to other districts	(228,975)	-	(4,145)	(233,120)
Bond payments	-	(265,000)	-	(265,000)
Total other financing sources (uses)	(362,285)	(213,525)	139,314	436,496
NET CHANGE IN FUND BALANCE	(130,667)	43,042	(18,282)	(105,907)
FUND BALANCES - BEGINNING OF YEAR	632,457	364,609	111,405	
FUND BALANCES - END OF YEAR	\$ 501,790	\$ 407,651	\$ 93,123	

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds do not record depreciation and report capital outlays as expenditures; in the statement of activities, these costs are capitalized and allocated over their estimated useful lives as depreciation	(189,767)
Accrued expenses are recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	(171,135)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	265,000
Change in net assets of governmental activities	\$ (201,809)

The accompanying notes to the financial statements are an integral part of this statement.



**L'ANSE AREA SCHOOLS**  
**FIDUCIARY FUNDS**  
**STATEMENT OF NET ASSETS**  
**June 30, 2005**

	<u>Fiduciary Fund</u>
ASSETS	
Cash and investments	\$ 307,516
Accounts Receivable	1,300
Due from General Fund	500
TOTAL ASSETS	<u>\$ 309,316</u>
LIABILITIES	
Due to student groups	\$ 71,635
Scholarship funds	233,674
Due to Governmental units	4,007
TOTAL LIABILITIES	<u>\$ 309,316</u>

The Accompanying notes to the financial statements are an integral part of this statement.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the L'Anse Area Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the more significant policies:

**REPORTING ENTITY**

In evaluating how to define the School District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility includes, but is not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the School is able to exercise oversight responsibilities. Based upon the application of these criteria there are no potential component units for the district.

**DISTRICT WIDE AND FUND FINANCIAL STATEMENTS**

The district wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental units.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not included among program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING, & FINANCIAL STATEMENT PRESENTATION**

District Wide Statements - The district wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

As a general rule, the effect of inter-fund activity has been eliminated from the district wide financial statements.

Amounts reported as program revenue are (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-Based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government unit.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following governmental funds:

General Fund - The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the activities of specific school service revenue sources such as the Food Service, and Athletic Activities.

Capital Projects Fund - The Capital Projects Fund is used to account for all revenues and expenditures associated with the School District's capital structures.

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Fiduciary Fund - Fiduciary Fund types are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District has the following Fiduciary Funds: Trust and Agency, Scholarship Fund, and Tax Collection Fund.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds."

Property tax revenue is recognized in the year for which taxes have been levied, provided they are available to finance expenditures of the current period in accordance with the National Council on Governmental Accounting Interpretation No. 3, Revenue Recognition - Property Taxes. Property taxes are levied by the School District from the five townships of Bohemia, Covington, Duncan, Laird, and L'Anse on July 1 and become due September 14.

The 2004 non-homestead and homestead taxable valuation of the District amounted to \$52,035,375 and \$45,474,454, respectfully. Ad valorem taxes of \$927,215 were levied for operating purposes (17.5567 mills) based on non-homestead taxable valuation and \$612,254 for debt retirement (6.25 mills) based on homestead and non-homestead taxable valuation. These amounts are recorded as revenue on the District's records in and for the fiscal year ending June 30, 2005.

Inventory

Inventory in the School District's General Fund consists of various school and office supplies totaling \$48,738.

Inventory in the School District's Special Revenue Fund consists of food, non-food items, and USDA Commodities totaling \$3,353. The School District utilizes the consumption method of recording inventories of food supplies in the School Service Fund. Under the consumption method, inventories are recorded as expenditures when they are used. Inventory is valued at cost.

Fixed Assets

Fixed assets, which include land, buildings, equipment, site improvements, and vehicles are reported in the applicable governmental activities column in the district wide financial statements. Fixed assets are defined by the government as assets with an initial individual cost of more than \$3,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

**L'ANSE AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2005**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

Accrued Benefits

The liabilities for accrued benefits reported in the district wide statements in the amount of \$746,223, consisted of vacation, sick leave, and early retirement/sick leave payout balances. The School District, as part of the various employment contracts with its personnel, allows annual sick and vacation days. Each employment contract specifies an accumulation policy for unused sick and vacation days, as follows:

Vacation Days

Various employees of the School District are allowed to accumulate vacation days in the year when they are earned. Liability of the School District for the employees' unused vacation days at June 30, 2005 is \$19,929.

Sick Leave

The various employment contracts with School District personnel stipulate different methods of accumulating and paying for unused sick leave. In general, under all methods, employees are allowed to accumulate unused sick leave and receive a terminal leave payment for unused sick leave. In order to receive payment upon retirement, the employee must have worked in the School District for at least five years. Unused sick leave payable at June 30, 2005 is \$433,967.

Early Retirement Payout

On March 22, 2004, the District set into place a Voluntary Retirement Incentive Plan for teachers who meet the retirement rules and regulations for the State of Michigan, had been employed by the District for at least 12 consecutive years, and had been actively employed during the 2003-2004 school year. Early retirement payout at June 30, 2005 is \$292,327.

Long-term Obligations

In the district wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

**L'ANSE AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2005**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

BUDGETARY DATA

The School District follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to July 1, the School District Superintendent submits to the Board of Education a proposed budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and means of financing them.
2. A public hearing is held to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted at a regular meeting by Board of Education approval.
4. Any revisions to the budgeted amounts must be approved by the Board of Education.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with GAAP.
6. Budgeted amounts presented in the financial statements are as originally adopted, or as amended by the Board of Education.
7. Budget appropriations lapse at the end of the fiscal year.

ENCUMBRANCES

Encumbrances are defined as commitments related to unperformed contracts for goods and services. The District does not record encumbrances in the normal course of operating its accounting system and none are recorded in the accompanying financial statements.

**NOTE B - BUDGETING AND ACCOUNTING**

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School for these budgetary funds were adopted to the activity level.

During the year ended June 30, 2005, the School incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

**L'ANSE AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2005**

**NOTE B- BUDGETING AND ACCOUNTING (Continued)**

Description	Total Appropriations	Amount of Expenditures	Budget Variances
General Fund:			
Special Education	\$501,919	\$506,254	(\$4,335)
Operations & maintenance	\$682,045	\$693,064	(\$11,019)
Pupil transportation	\$316,307	\$354,302	(\$37,995)
Capital Projects Fund - Construction	\$26,000	\$26,351	(\$351)
School Service Fund:			
Employee Benefits	\$47,630	\$47,757	(\$127)
Commodity Foods	\$38,000	\$40,243	(\$2,243)
Athletics - Purchase services	\$23,200	\$23,402	(\$202)

**NOTE C - CASH AND INVESTMENTS**

**CASH DEPOSITS**

At year-end, the School District's deposits (checking, savings and certificates of deposit) and investments were reported in the basic financial statements in the following categories and breakdown between deposits and investments for the School District is as follows:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Unrestricted cash	\$ 504,557	\$ 0	\$ 504,557
Restricted cash	402,454	274,946	677,400
Total cash and cash equivalents	907,011	274,946	1,181,957
Investments	595,736	32,570	628,306
Total deposits and investments	<u>\$ 1,502,747</u>	<u>\$ 307,516</u>	<u>\$ 1,810,263</u>

At June 30, 2005, the book value of the School District's demand deposits, consisting primarily of checking and savings accounts, certificates of deposit and other cash equivalents, was \$1,181,972 with a corresponding bank balance of \$1,245,248. Qualifying deposits are insured by the Federal Deposit Insurance Corporation up to \$100,000. Of the bank balance, approximately \$662,846, representing approximately 53% of the District's deposits, was covered by Federal Depository Insurance. Michigan law does not require collateralization of government deposits, therefore, only the \$662,846 was insured and \$582,402 was neither insured or collateralized.

**L'ANSE AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2005**

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**NOTE C - CASH AND INVESTMENTS (Continued)**

**INVESTMENTS**

The investment of the School District's funds is governed by state statutes. In general, state statutes provide that the School District is authorized to invest its funds in certificates of deposit, savings accounts and deposit accounts in a bank which is a member of the Federal Deposit Insurance Corporation. In addition, it may also invest in bonds, securities and other obligations of the United States in which the principal and interest are fully guaranteed by the United States, and investments in commercial paper rated at prime at the time of purchase and which mature not more than 270 days after the date of purchase.

The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

1. Insured or registered, or securities held by the entity or its agent in the entity's name.
2. Uninsured and unregistered, with securities held by the counter-party's trust department or agent in the entity's name.
3. Uninsured and unregistered, with securities held by the counter-party or by its trust department or agent but not in the entity's name.

Balances held in each category at June 30, 2005 are as follows:

	Categories			Carrying Amount	Market Value
	1	2	3		
Indices	\$ -	\$ 20,969	\$ -	\$ 20,969	\$ 22,679
U.S. Treasury Bonds	-	11,601	-	11,601	11,604
	<u>\$ -</u>	<u>\$ 32,570</u>	<u>\$ -</u>	<u>32,570</u>	<u>34,283</u>
Investments in Mutual or similar type funds not subject to credit risk categorization:					
Investment in Michigan School District Liquid Asset Fund Plus				<u>595,737</u>	<u>595,737</u>
Total Investments				<u>\$ 628,307</u>	<u>\$ 630,020</u>



**L'ANSE AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2005**

**NOTE D - FIXED ASSETS**

Fixed Asset activity of the School District's governmental activities was as follows:

	Balance 06/30/04	Additions	Deletions	Balance 06/30/05
Land	\$ 138,642	\$ 0	\$ 0	\$ 138,642
Building and additions	8,048,503	0	0	8,048,503
Improvements other than building	620,921	0	0	620,921
Equipment	403,755	33,084	0	436,839
Furniture	50,880	0	0	50,880
Software	36,529	0	0	36,529
Vehicles	43,043	0	0	43,043
School buses	625,676	62,333	99,375	588,634
Subtotal	<u>9,967,949</u>	<u>95,417</u>	<u>99,375</u>	<u>9,963,991</u>
Accumulated depreciation:				
Building and additions	966,269	161,415	0	1,127,684
Improvements other than building	183,724	31,046	0	214,770
Equipment	122,521	38,006	0	160,527
Furniture	10,409	2,872	0	13,281
Software	14,329	3,653	0	17,982
Vehicles	40,793	1,125	0	41,918
School buses	480,442	47,067	99,375	428,134
	<u>1,818,487</u>	<u>285,184</u>	<u>99,375</u>	<u>2,004,296</u>
Net capital assets	<u>\$ 8,149,462</u>	<u>\$ (189,767)</u>	<u>\$ 0</u>	<u>\$ 7,959,695</u>

Depreciation expense was charged to activities of the School District as follows:

Governmental activities	
Athletic Fund	\$ 5,458
Food Service	6,745
General Fund:	
Instructional	213,681
Supporting Services	3,748
Operations	7,085
Transportation	48,467
Total governmental activities	<u>\$ 285,184</u>

**L'ANSE AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2005**

**NOTE E - INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS**

Amounts due from (to) other funds represent the balance of monies due from or to other funds for expenditures made or fund balance transfers approved. The amounts of inter-fund receivables and payables as of June 30, 2005 are as follows:

Fund	Inter-fund Receivable	Fund	Inter-fund Payable
General	\$ 23,796	General	\$ 0
Debt Retirement	0	Debt Retirement	1,647
Food Service	0	Food Service	2,607
Athletic	0	Athletic	16,816
Community Services	0	Community Services	2,906
TOTAL	<u>\$ 23,796</u>	TOTAL	<u>\$ 23,976</u>

Fund	Transfer In	Fund	Transfer Out
General	\$ 15,906	General	\$ 195,125
Debt Service	51,475	Debt Service	0
Food Service	2,200	Food Service	15,906
Athletic	89,362	Athletic	0
Community Services	52,088	Community Services	0
TOTAL	<u>\$ 211,031</u>	TOTAL	<u>\$ 211,031</u>

**NOTE F - LONG TERM DEBT**

1991 Bonds

On May 1, 1991, the School District issued \$410,000 of unlimited tax general obligation bonds.

The bond issue matures, as indicated below, with interest at varying rates of 6.00% to 8.00%. Interest payments are payable semi-annually on May 1 and November 1 as indicated below:

Payable School Year	November 1 Interest	May 1 Interest	May 1 Principal	Total
2005-2006	<u>\$ 1,700</u>	<u>\$ 1,700</u>	<u>\$ 50,000</u>	<u>\$ 53,400</u>

**L'ANSE AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2005**

**NOTE F - LONG-TERM DEBT (Continued)**

1998 School Building and Site Bonds

On August 24, 1998, the School District issued \$9,855,000 of general obligation - unlimited tax bonds for the purpose of remodeling, refurbishing and re-equipping the Jr./Sr. High School and in part for improving the library; erecting, furnishing, and equipping an addition to the Jr./Sr. High School in part for music, cafeteria, gymnasium and middle school purposes; partially remodeling, refurbishing and re-equipping the C.J. Sullivan Elementary School; and acquiring and installing additional educational technology systems and developing and improving playgrounds and sites.

The bond issue (denominations of \$5,000) matures as indicated below with interest at varying rates of 4.50% to 4.85% per annum. Interest payments began on May 1, 1999, and are payable semi-annually on May 1 and November 1 as indicated. The bonds are to be both term and serial.

Bonds maturing on or after May 1, 2009, shall be subject to redemption prior to maturity at the option of the School District, in such order as the School District may determine and by lot within any maturity, on any interest payment date on or after May 1, 2008, at par and accrued interest to the date fixed for redemption.

1998 ISSUE

Payable School Year	November 1 Interest	May 1 Interest	May 1 Principal	Total
2005-2006	\$ 204,616	\$ 204,616	\$ 235,000	\$ 644,232
2006-2007	199,329	199,329	250,000	648,658
2007-2008	193,704	193,704	265,000	652,408
2008-2009	187,741	187,741	280,000	655,482
2009-2010	181,441	181,441	295,000	657,882
2010-2011	174,804	174,804	310,000	659,608
2011-2012	167,829	167,829	325,000	660,658
2012-2013	160,516	160,516	340,000	661,032
2013-2018	679,841	679,841	1,925,000	3,284,682
2018-2023	437,016	437,016	2,225,000	3,099,032
2023-2028	165,506	165,506	2,275,000	2,606,012
TOTAL	<u>\$ 2,752,343</u>	<u>\$ 2,752,343</u>	<u>\$ 8,725,000</u>	<u>\$ 14,229,686</u>

Durant Bonds

As part of the Durant settlement non plaintiff school districts entitled to receive amounts greater than \$75,000 were offered a bonding option. The School District participated in the bonding option and on November 24, 1998 issued \$131,554 of school improvement bonds for the purpose of adding two rooms to the C.J. Sullivan Elementary building.

**L'ANSE AREA SCHOOLS****NOTES TO FINANCIAL STATEMENTS - June 30, 2005****NOTE F - LONG-TERM DEBT (Continued)**

The bond issue matures as indicated below with interest not to exceed 8% per annum. Interest payments began on May 15, 1999 and are payable annually thereafter on May 15 as indicated. The annual payments will be appropriated by the State of Michigan and will be the only revenue source for making the annual debt service payment on the bonds. The District is under no obligation to make the annual payment in any year the legislature fails to appropriate the proper amount of funds.

The bonds are not subject to redemption prior to maturity and the School District will not issue any other bonds or obligations for the purpose of refunding these bonds. Even though the State of Michigan will be appropriating funds to pay the principal and interest, the bonds are the obligation of the School District, not the State.

**DURANT BOND ISSUE**

<u>Payable School Year</u>	<u>May 15 Interest</u>	<u>May 15 Principal</u>	<u>Total</u>
2005-2006	\$ 13,468	\$ 30,125	\$ 43,593
2006-2007	2,567	6,670	9,237
2007-2008	2,250	6,989	9,239
2008-2009	1,917	7,321	9,238
2009-2010	1,568	7,670	9,238
2010-2011	1,203	8,035	9,238
2011-2012	821	8,417	9,238
2012-2013	420	8,818	9,238
<b>TOTAL</b>	<u>\$ 24,214</u>	<u>\$ 84,045</u>	<u>\$ 108,259</u>

The following is a summary of the changes in the general long-term debt for the year ended June 30, 2005:

	<u>Balance June 30, 2004</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2005</u>	<u>Current Portion</u>
1991 Bonds	\$ 95,000	\$ 0	\$ 45,000	\$ 50,000	\$ 50,000
1998 Bonds	8,945,000	0	220,000	8,725,000	235,000
Durant Bond	84,045	0	0	84,045	30,125
	<u>9,124,045</u>	<u>0</u>	<u>265,000</u>	<u>8,859,045</u>	<u>\$ 315,125</u>
Accrued Interest	70,259	2,648	0	72,907	
Accrued Benefits	577,736	292,327	123,840	746,223	
<b>TOTAL</b>	<u>\$ 9,772,040</u>	<u>\$ 294,975</u>	<u>\$ 388,840</u>	<u>\$ 9,678,175</u>	

**L'ANSE AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2005**

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**NOTE F - LONG-TERM DEBT (Continued)**

As of June 30, 2005, the aggregate maturities of long-term debt for the next ten years and thereafter are as follows:

	Principal	Interest	Total
2005-2006	\$ 315,125	\$ 426,100	\$ 741,225
2006-2007	256,670	401,225	657,895
2007-2008	271,989	389,658	661,647
2008-2009	287,321	377,399	664,720
2009-2010	302,670	364,450	667,120
2010-2011	318,035	350,811	668,846
2011-2012	333,417	336,479	669,896
2012-2013	348,818	321,452	670,270
2013-2018	1,925,000	1,359,682	3,284,682
2018-2023	2,225,000	874,032	3,099,032
2023-2028	2,275,000	331,012	2,606,012
	<u>\$ 8,859,045</u>	<u>\$ 5,532,300</u>	<u>\$ 14,391,345</u>

**NOTE G - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN**

Substantially all of the District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of creditable service; or at age sixty with at least 10 years of credited service; or at age 60 with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

**NOTE G - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued)**

The MPSERS also provides death, disability, health, medical, dental, vision, and hearing insurance coverage. Benefits are established by state statute.

The District was required by the state statute to contribute 12.99% of covered compensation through September 30, 2004 and 14.87% of covered compensation to the Plan for the remainder of the year. The total amount contributed to the Plan for the year ended June 30, 2005 was \$619,839, which consisted of \$505,520 from the District and \$114,319 from employees electing the MIP option. These represent approximately 14.52% and 3.28% of covered payroll, respectively.

Payroll paid to employees covered by the System for the year ended June 30, 2005 was approximately \$3,481,031. The District's total payroll was approximately \$3,621,877.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employees' service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPSERS' fund status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among MPSERS and employers. The MPSERS does not make separate measurements of assets and pension benefit obligations for individual districts.

As of September 30, 2004 for the MPSERS as a whole, the actuarial accrued liability was \$44.8 billion. The pension plan net assets were \$38.7 billion, resulting in a ratio of assets at market value to the actuarial accrued liability of 80.36%. Employer contributions are based upon level-percent-of-payroll principles so that the contribution rates do not have to increase over decades of time. The District's 2004 contribution represented less than 1% of total contributions required of all participating entities.

Ten year historical trend information showing the MPSERS' progress in accumulating sufficient assets to pay benefits when due is presented in the MPSERS' September 30, 2004 annual report.

The State of Michigan is responsible for the payment of retirement benefits.

**NOTE H - RESERVE FUND BALANCE**

The Debt Service fund balance is reserved for retirement of debt. According to generally accepted accounting principles, reserved fund balances are reported separately in the fund balance section.

**L'ANSE AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2005**

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**NOTE I - FOUNDATION REVENUE**

Effective as of fiscal year 1994-95 the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. The foundation allowance is based on the average of pupil membership counts taken in February and September of the previous year.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The school district levies 17.5567 mills for non-homestead property taxes. State revenue recognized during the foundation period (currently the fiscal year) is as follows:

2004-05 Foundation		\$	6,700.00
Less Local Support:			
Non-Homestead Tax Value	52,035,375		
Multiplied by mills	<u>0.018</u>		
Total Local Support	936,637		
Divided by General Education K-12 membership	<u>785.90</u>		
Calculated Local Support			<u>(1,191.80)</u>
2003-04 Foundation Grant Allowance Per Pupil		\$	<u><u>5,508.20</u></u>

**NOTE J - CONTINGENT LIABILITIES (RISK POOL)**

L'Anse Area Schools is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. L'Anse Area Schools joined together with other school districts currently operating a common risk management and insurance program. L'Anse Area Schools pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

L'Anse Area Schools continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments.

The MASB-SEG Property & Casualty Pool has published its own financial report for the year ended June 30, 2005, which can be obtained through the School District.

**L'ANSE AREA SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2005**

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**NOTE K - PRIOR PERIOD ADJUSTMENTS**

During the current year it was discovered that accounts payables in the Capital Projects Fund was written off as part of the settlement for the project dating back two years in the amount of \$9,725. Consequently, an adjustment was made for \$9,725, increasing the fund balance as of the beginning of the year.

**NOTE L- RECLASSIFICATION**

Certain items in the June 2004 financial statements have been reclassified to conform with the current year presentation.



**REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION**

**L'ANSE AREA SCHOOLS**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**For the Year Ended June 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>(GAAP Basis)</u>	<u>Final to Actual</u>
REVENUES:				
Local sources	\$ 1,051,938	\$ 1,065,179	\$ 1,090,564	\$ 25,385
State sources	4,622,479	4,727,091	4,671,504	(55,587)
Federal sources	534,071	635,691	618,176	(17,515)
TOTAL REVENUE	6,208,488	6,427,961	6,380,244	(47,717)
EXPENDITURES:				
Instruction	3,874,475	4,011,573	3,905,691	105,882
Supporting services	2,287,192	2,333,571	2,242,935	90,636
TOTAL EXPENDITURES	6,161,667	6,345,144	6,148,626	196,518
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	46,821	82,817	(231,618)	(148,801)
OTHER FINANCING SOURCES (USES):				
Incoming transfers from other schools	19,200	48,200	45,909	(2,291)
Operating transfers in (out)	(185,973)	(194,210)	(179,219)	14,991
Outgoing transfers to other schools	(30,100)	(28,600)	(228,975)	(200,375)
Total other financing sources (uses)	(196,873)	(174,610)	(362,285)	(187,675)
NET CHANGE IN FUND BALANCE	(150,052)	(91,793)	(130,667)	(336,476)
FUND BALANCE - BEGINNING OF YEAR	632,457	632,457	632,457	-
FUND BALANCE - END OF YEAR	<u>\$ 482,405</u>	<u>\$ 540,664</u>	<u>\$ 501,790</u>	<u>\$ 38,874</u>

## **SUPPLEMENTAL FINANCIAL INFORMATION**

**L'ANSE AREA SCHOOLS**  
**GENERAL FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2005**

	<u>2005</u>	<u>2004</u>
REVENUES:		
Local sources:		
Taxes	\$ 934,866	\$ 911,362
Other local sources:		
Investment revenue	11,106	12,012
Penalties and interest	8,932	8,453
Contributions	14,215	8,989
Other	85,535	80,059
Total other local sources	119,788	109,513
Total local sources	1,054,654	1,020,875
Intermediate sources	35,910	-
State sources:		
Unrestricted grant - State Aid	4,388,815	4,264,170
Restricted grants:		
Driver's Education	-	6,629
Special Education	152,486	192,539
Bilingual	13,675	10,385
At-risk	82,968	97,762
Vocational education	7,249	3,690
Durant settlement	26,311	-
Total restricted grants	282,689	311,005
Total state sources	4,671,504	4,575,175
Federal sources:		
Title I	102,609	121,068
Title II	68,351	79,305
Title III	25,429	-
Title V	6,059	4,486
Title VI	50,086	71,059
Impact Aid	256,822	241,229
Ottawa National Forest	98,084	99,982
Other federal sources	10,736	3,816
Total federal sources	618,176	620,945
TOTAL REVENUES	6,380,244	6,216,995

**L'ANSE AREA SCHOOLS**  
**GENERAL FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES (Continued)**  
**Year Ended June 30, 2005**

EXPENDITURES:	<u>2005</u>	<u>2004</u>
Instruction:		
Basic program:		
Elementary School	1,285,914	1,213,727
Middle School	901,823	832,859
High School	<u>900,682</u>	<u>1,153,606</u>
Total basic program	<u>3,088,419</u>	<u>3,200,192</u>
Added needs:		
Special Education	506,254	554,436
Compensatory education	261,389	269,047
Vocational Education	<u>49,629</u>	<u>70,077</u>
Total added needs	<u>817,272</u>	<u>893,560</u>
Total instruction	<u>3,905,691</u>	<u>4,093,752</u>
Supporting services:		
Pupil:		
Attendance	14,207	19,120
Guidance	94,965	89,535
Health	27,188	16,093
Other pupil services	<u>52,418</u>	<u>51,365</u>
Total pupil services	<u>188,778</u>	<u>176,113</u>
Instructional staff:		
Improvement of instruction	13,140	10,782
Library	31,465	31,862
Supervision/direction instructional staff	<u>60,735</u>	<u>72,585</u>
Total instructional staff	<u>105,340</u>	<u>115,229</u>
General administration:		
Board of education	43,237	33,942
Executive administration	<u>184,945</u>	<u>176,572</u>
Total general administration	<u>228,182</u>	<u>210,514</u>
School administration:		
Elementary School Principal	151,899	149,982
Middle School Principal	98,437	58,737
High School Principal	<u>156,088</u>	<u>149,411</u>
Total school administration	<u>406,424</u>	<u>358,130</u>
Community services	<u>2,247</u>	<u>-</u>

**L'ANSE AREA SCHOOLS**  
**GENERAL FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES (Continued)**  
**Year Ended June 30, 2005**

	<u>2005</u>	<u>2004</u>
Other supporting services:		
Business-fiscal services	137,147	135,849
Operation & maintenance	693,064	697,103
Pupil transportation	354,302	300,218
Staff/Personnel services	5,260	8,791
Technology	122,191	82,936
Total other supporting services	<u>1,311,964</u>	<u>1,224,897</u>
 Total supporting services	 <u>2,242,935</u>	 <u>2,084,883</u>
 TOTAL EXPENDITURES	 <u>6,148,626</u>	 <u>6,178,635</u>
 EXCESS OF REVENUES OVER EXPENDITURES	 <u>231,618</u>	 <u>38,360</u>
 OTHER FINANCING SOURCES (USES):		
Incoming transfers - other schools	45,909	44,963
Operating transfer in (out)	(179,219)	(161,833)
Other outgoing transfers	(228,975)	(38,997)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(362,285)</u>	<u>(155,867)</u>
 EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	   (130,667)	   (117,507)
 FUND BALANCE, BEGINNING OF YEAR	 <u>632,457</u>	 <u>749,964</u>
 FUND BALANCE, END OF YEAR	 <u>\$ 501,790</u>	 <u>\$ 632,457</u>

**L'ANSE AREA SCHOOLS**  
**DEBT SERVICE FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2005**

	<u>2005</u>	<u>2004</u>
REVENUES:		
Local sources:		
Current taxes	\$ 612,254	\$ 601,625
Interest income	9,459	12,753
Other taxes	38,369	42,863
Unrestricted Political Subdivision	21,029	-
Penalties & interest on delinquent taxes	3,709	2,852
TOTAL REVENUES	<u>684,820</u>	<u>660,093</u>
EXPENDITURES:		
Interest on bonds	425,593	437,537
Other expenses	2,660	1,147
TOTAL EXPENDITURES	<u>428,253</u>	<u>438,684</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	256,567	221,409
OTHER FINANCING SOURCES (USES):		
Redemption of bond principal	(265,000)	(245,000)
Transfer from General Fund	51,475	44,590
TOTAL OTHER FINANCING SOURCES	<u>213,525</u>	<u>200,410</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>43,042</u>	<u>20,999</u>
FUND BALANCE, BEGINNING OF YEAR	<u>364,609</u>	<u>343,610</u>
FUND BALANCE, END OF YEAR	<u>\$ 407,651</u>	<u>\$ 364,609</u>

**L'ANSE AREA SCHOOLS**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEETS**

**June 30, 2005**

	Capital Projects	School Food Service	Athletic	Community Services	Totals Memorandum Only	
					2005	2004
ASSETS AND OTHER DEBITS:						
Cash	\$ 21,333	\$ 68,354	\$ 102	\$ 161	\$ 89,950	\$ 92,183
Receivables	-	7,304	1,145	-	8,449	15,616
Inventory	-	3,353	-	-	3,353	3,286
Due from other funds	-	-	-	-	-	17,744
Due from other governmental units	-	2,043	15,715	11,706	29,464	10,729
<b>TOTAL ASSETS</b>	<b>\$ 21,333</b>	<b>\$ 81,054</b>	<b>\$ 16,962</b>	<b>\$ 11,867</b>	<b>\$ 131,216</b>	<b>\$ 139,558</b>
LIABILITIES:						
Accounts payable	\$ 5,173	\$ 230	\$ 146	\$ 2,171	\$ 7,720	\$ 7,854
Accrued expenses	-	1,254	-	6,790	8,044	9,180
Due to other funds	-	2,607	16,816	2,906	22,329	11,119
<b>TOTAL LIABILITIES</b>	<b>5,173</b>	<b>4,091</b>	<b>16,962</b>	<b>11,867</b>	<b>38,093</b>	<b>28,153</b>
FUND EQUITY:						
Fund balance - unreserved	16,160	76,963	-	-	93,123	111,405
<b>TOTAL LIABILITIES &amp; FUND EQUITY</b>	<b>\$ 21,333</b>	<b>\$ 81,054</b>	<b>\$ 16,962</b>	<b>\$ 11,867</b>	<b>\$ 131,216</b>	<b>\$ 139,558</b>



**L'ANSE AREA SCHOOLS**  
**CAPITAL PROJECTS FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2005**

	<u>2005</u>	<u>2004</u>
REVENUES:		
Local sources:		
Interest	\$ 477	\$ 1,871
EXPENDITURES:		
Legal fees	26,351	10,479
TOTAL EXPENDITURES	<u>26,351</u>	<u>10,479</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(25,874)	(8,608)
FUND BALANCE, BEGINNING OF YEAR	<u>42,034</u>	<u>50,642</u>
FUND BALANCE, END OF YEAR	<u>\$ 16,160</u>	<u>\$ 42,034</u>

**L'ANSE AREA SCHOOLS**  
**FOOD SERVICE FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2005**

	<u>2005</u>	<u>2004</u>
REVENUES:		
Local sources:		
Adult lunches	\$ 10,916	\$ 10,902
A-La-Carte	5,128	4,086
Student lunches	81,393	75,218
Interest	1,085	1,053
Miscellaneous	924	1,119
Total local sources	<u>99,446</u>	<u>92,378</u>
State sources	<u>8,186</u>	<u>13,859</u>
Federal sources:		
School lunch program	134,226	121,603
USDA entitlements	20,732	18,225
Total federal sources	<u>154,958</u>	<u>139,828</u>
TOTAL REVENUES	<u>262,590</u>	<u>246,065</u>
EXPENDITURES:		
Salaries	64,287	58,335
Employee benefits	47,757	46,481
Purchase services	1,213	323
Supplies, materials, and other	128,037	115,411
TOTAL EXPENDITURES	<u>241,294</u>	<u>220,550</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	21,296	25,515
OTHER FINANCING SOURCES (USES)		
Operating transfers in (out)	<u>(13,706)</u>	<u>(8,141)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	7,590	17,374
FUND BALANCE, BEGINNING OF YEAR	<u>69,373</u>	<u>51,999</u>
FUND BALANCE, END OF YEAR	<u>\$ 76,963</u>	<u>\$ 69,373</u>

**L'ANSE AREA SCHOOLS**  
**ATHLETIC FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2005**

	<u>2005</u>	<u>2004</u>
REVENUES:		
Local sources:		
Gate receipts	\$ 28,615	\$ 24,510
Interest income	322	236
Contributions	5,536	2,982
Other	<u>2,205</u>	<u>8,568</u>
TOTAL REVENUES	<u>36,678</u>	<u>36,296</u>
EXPENDITURES:		
Salaries	79,082	69,299
Employee benefits	19,150	16,577
Purchase services	23,402	17,438
Supplies, materials, and other	<u>20,119</u>	<u>11,943</u>
TOTAL EXPENDITURES	<u>141,753</u>	<u>115,257</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(105,075)	(78,961)
OTHER FINANCING SOURCES (USES)		
Operating transfers in	<u>105,077</u>	<u>78,858</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	2	(103)
FUND BALANCE, BEGINNING OF YEAR	<u>(2)</u>	<u>101</u>
FUND BALANCE, END OF YEAR	<u>\$ -</u>	<u>\$ (2)</u>

**L'ANSE AREA SCHOOLS**  
**COMMUNITY SERVICE FUND**  
**STATEMENTS OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2005**

	<u>2005</u>	<u>2004</u>
REVENUES:		
Local sources:		
Contributions	\$ 1,105	\$ 3,178
Interest income	295	139
Miscellaneous	<u>1,184</u>	<u>996</u>
Total local sources	<u>2,584</u>	<u>4,313</u>
Unrestricted Political Subdivision	<u>39,788</u>	<u>49,290</u>
State sources	<u>8,731</u>	<u>8,305</u>
TOTAL REVENUES	<u>51,103</u>	<u>61,908</u>
EXPENDITURES:		
Salaries	54,683	54,435
Employee benefits	32,479	35,027
Purchase services	3,946	4,469
Supplies, materials, and other	<u>7,938</u>	<u>10,351</u>
TOTAL EXPENDITURES	<u>99,046</u>	<u>104,282</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(47,943)	(42,374)
OTHER FINANCING SOURCES (USES)		
Transfer to other entities	(4,145)	(4,152)
Operating transfers in	<u>52,088</u>	<u>46,526</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>47,943</u>	<u>42,374</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	-	-
FUND BALANCE, BEGINNING OF YEAR	<u>-</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>

**L'ANSE AREA SCHOOLS**  
**AGENCY FUND - SCHOOL ACTIVITIES**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**June 30, 2005**

	Balance June 30, 2004	Receipts	Disbursements	Balance June 30, 2005
<b>ASSETS</b>				
Cash - High School	\$ 39,353	\$ 134,992	\$ 124,869	\$ 49,476
Cash - Elementary Savings	21,795	19,442	19,078	22,159
<b>TOTAL ASSETS</b>	<b>\$ 61,148</b>	<b>\$ 154,434</b>	<b>\$ 143,947</b>	<b>\$ 71,635</b>
<b>LIABILITIES</b>				
<b>HIGH SCHOOL</b>				
Class of 2004	\$ 766	\$ 0	\$ 766	\$ 0
Class of 2005	1,970	2,128	4,098	0
Class of 2006	3,541	6,595	8,578	1,558
Class of 2007	2,130	2,415	1,346	3,199
Class of 2008	463	2,127	1,473	1,117
Class of 2010	46	0	0	46
Class of 2011	0	77	8	69
Camp Nesbit	8,108	25,646	22,848	10,906
Student Council	544	299	350	493
Yearbook	6,790	16,633	15,670	7,753
National Honor Society	8	267	137	138
Donations	901	2,820	2,513	1,208
Play Fund	513	831	699	645
SADD	173	620	229	564
VICA	95	0	86	9
Math	82	0	0	82
Special Education	0	400	0	400
Band	1,047	55	518	585
Youth in Government	(40)	17,589	17,768	(219)
Middle School	32	16	9	39
Track	77	0	0	77
Cheerleading	117	0	0	117
Curtain Fund	546	815	0	1,361
Boys Basketball	309	27	255	81
Varsity Football	110	1,827	1,791	146
Vending Machines	11,025	53,804	45,727	19,102
<b>TOTAL HIGH SCHOOL</b>	<b>39,353</b>	<b>134,991</b>	<b>124,869</b>	<b>49,476</b>
<b>ELEMENTARY</b>				
Assembly Fees	905	969	1,246	628
Pop	724	1,069	758	1,035
Pictures	10,173	298	19	10,452
Miscellaneous	1,983	6,986	6,100	2,869
Other	8,010	10,120	10,955	7,175
<b>TOTAL ELEM SCHOOL</b>	<b>21,795</b>	<b>19,442</b>	<b>19,078</b>	<b>22,159</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 61,148</b>	<b>\$ 154,433</b>	<b>\$ 143,947</b>	<b>\$ 71,635</b>

**L'ANSE AREA SCHOOLS**  
**SCHOLARSHIP FUND**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**June 30, 2005**

	Balance June 30, 2004	Receipts	Disbursements	Balance June 30, 2005
<b>ASSETS</b>				
Cash and Investments	\$ 227,500	\$ 5,724	\$ 1,350	\$ 231,874
Accounts Receivable	0	1,300	0	1,300
Due from General Fund	0	500	0	500
<b>TOTAL ASSETS</b>	<b><u>\$ 227,500</u></b>	<b><u>\$ 7,524</u></b>	<b><u>\$ 1,350</u></b>	<b><u>\$ 233,674</u></b>
<b>LIABILITIES</b>				
Due to General Fund	\$ 1,100	\$ 3,500	\$ 0	\$ 4,600
Scholarship Funds				
Berg, Harold J., Memorial	3,264	49	0	3,313
Board of Education	9,463	143	0	9,606
Dubuque	332	5	0	337
Groleau	0	500	500	0
Guay	23,603	349	0	23,952
Gudegast	152	101	250	3
Guy	3,631	55	0	3,686
Higgins	40,042	1,613	1,500	40,155
Juntunen	16,006	241	0	16,247
McKindles Award	407	615	100	922
Putula	(500)	1,006	500	6
Roth	32,847	1,317	1,592	32,572
St. John, Franklin M.	97,153	1,464	350	98,267
Turpeinen	0	309	301	8
<b>TOTAL LIABILITIES</b>	<b><u>\$ 227,500</u></b>	<b><u>\$ 11,267</u></b>	<b><u>\$ 5,093</u></b>	<b><u>\$ 233,674</u></b>

**L'ANSE AREA SCHOOLS**  
**TAX COLLECTION FUND**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**June 30, 2005**

	Balance June 30, 2004	Receipts	Disbursements	Balance June 30, 2005
ASSETS				
Cash	\$ 4,055	\$ 2,315,557	\$ 2,315,605	\$ 4,007
LIABILITIES				
Due to other units	\$ 4,055	\$ 2,315,557	\$ 2,315,605	\$ 4,007
TOTAL LIABILITIES	\$ 4,055	\$ 2,315,557	\$ 2,315,605	\$ 4,007



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Board of Education  
L'Anse Area Schools  
L'Anse, Michigan

We have audited the financial statements of the L'Anse Area Schools as of and for the year ended June 30, 2005, and have issued our report thereon dated September 15, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the L'Anse Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the L'Anse Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the school district's board of education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Bruce A. Rukkila, CPA, PC*

Certified Public Accountants

September 15, 2005





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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education  
L'Anse Area Schools  
L'Anse, Michigan

**Compliance**

We have audited the compliance of the L'Anse Area Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The L'Anse Area Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the L'Anse Area Schools' management. Our responsibility is to express an opinion on the L'Anse Area Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether a noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the L'Anse Area Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the L'Anse Area Schools' compliance with those requirements.

In our opinion, the L'Anse Area Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

**Internal Control Over Compliance**

The management of the L'Anse Area Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the L'Anse Area Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the school district's board of education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Bruce A. Rukkila, CPA, PC*

Certified Public Accountants

September 15, 2005

**L'ANSE AREA SCHOOLS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended June 30, 2005**

Federal Grantor Pass Through Grantor Program Title		Federal CFDA Number	Approved Grant Award Amount	Accrued (Deferred) revenue July 1, 2004	Current Year Cash Receipts	Current Year Expenditures	Accrued (Deferred) Revenue June 30, 2005
<i>U.S. Department of Education:</i>							
Direct							
Indian Education - E-T003E000999		84.003E	\$ 483,500	\$ (1,000)	0	0	\$ (1,000)
Title VII - S060A040658		84.060A	50,086	0	50,086	50,086	0
Small Rural Achievement Grant - REAP		84.358A	4,696	0	4,696	4,696	0
P.L. 874 - Impact Aid S041Z-2443		84.041	256,822	0	256,822	256,822	0
			795,104	(1,000)	311,604	311,604	(1,000)
Total Direct							
Passed through M.D.E.							
Title I Part A Grant 041530-0304		84.010	113,281	113,282	113,282	0	0
Title I Part A Grant 041530-0405		84.010	6,212	0	6,212	6,212	0
Title I Part A Grant 051530-0405		84.010	106,057	0	95,674	96,397	723
			225,550	113,282	215,168	102,609	723
Title IIA Improving Teacher Quality 030520-0203		84.367	34,524	34,524	34,524	0	0
Title IIA Improving Teacher Quality 040520-0304		84.367	41,223	41,223	41,223	0	0
Title IIA Improving Teacher Quality 040520-0405		84.367	29,375	0	29,375	29,375	0
Title IIA Improving Teacher Quality 050520-0405		84.367	39,728	0	31,936	35,305	3,369
			144,850	75,747	137,058	64,680	3,369
Title III English Language 030580-0304		84.365	15,615	15,615	15,615	0	0
Title III English Language 040580-0304		84.365	21,502	11,747	11,747	0	0
Title III English Language 040580-0405		84.365	9,881	0	9,881	9,881	0
Title III English Language 050580-0405		84.365	25,017	0	15,525	15,548	23
			72,015	27,362	52,768	25,429	23
Title V LEA Allocation 030250-0304		84.298	6,468	409	409	0	0
Title V LEA Allocation 040250-0304		84.298	4,486	4,486	4,486	0	0
Title V LEA Allocation 040250-0405		84.298	6,059	0	6,059	6,059	0
			17,013	4,895	10,954	6,059	0
Technology Literacy Challenge 044290-0405		84.318	976	0	976	976	0
Technology Literacy Challenge 054290-0405		84.318	2,695	0	2,695	2,695	0
			3,671	0	3,671	3,671	0
Total Passed through M.D.E.			463,099	221,286	419,619	202,448	4,115

Total U.S. Dept of Education		1,258,203	220,286	731,223	514,052	3,115
<i>U.S. Department of Agriculture:</i>						
Passed Through Michigan Dept of Education						
National School Lunch						
Section 4 - All Lunches	10.555	20,322	0	20,322	20,322	0
Section 11 - Free & Reduced	10.555	88,693	0	88,693	88,693	0
		109,015	0	109,015	109,015	0
Passed Through Michigan Dept of Education						
Breakfast	10.533	25,211	0	25,211	25,211	0
		134,226	0	134,226	134,226	0
Food Distributions- Entitlement Commodities	10.550	18,406	0	18,406	18,406	0
Food Distributions- Bonus Commodities	10.550	2,326	0	2,326	2,326	0
		20,732	0	20,732	20,732	0
		154,958	0	154,958	154,958	0
Passed Through Houghton County						
Ottawa National Forest	10.670	98,084	0	98,084	98,084	0
Total U.S. Dept of Agriculture		253,042	0	253,042	253,042	0
<i>U.S. Department of Labor:</i>						
Passed Through Western U.P. Manpower Consortium						
Workforce Investment Act (WIA)	17.250	6,040	0	6,040	6,040	0
TOTALS		\$ 1,517,285	\$ 220,286	\$ 990,305	\$ 773,134	\$ 3,115

The accompanying notes to financial statements are an integral part of this statement.

**NOTE A - OVERSIGHT AGENCY**

The U. S. Department of Education is the current year's oversight agency for the single audit as determined by the agency providing the largest share of the school's expenditures of federal awards.

**NOTE B - BASIS OF ACCOUNTING**

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.

**NOTE C - FINAL COST REPORT - FORM DS4044**

The final cost reports are not due until 60 days after the end of the grant period. The reports for the current year grants were not completed as of the date of our report. However, we reviewed the reports filed for the prior year grants and noted that they agreed with either the prior year audited figures or the prior year and current year audit figures combined.

**NOTE D - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS RECONCILIATION**

A reconciliation of expenditures on the Schedule of Expenditures of Federal Awards to federal revenue recognized on page 16 of these financial statements is \$773,134. The amounts reported as current payments on the R7120, Grant Section Auditors Report, reconcile with the Schedule of Expenditures of Federal Awards as follows:

Total current payments per R7120	\$ 345,220
Less: Prior year receivables	(12,661)
Plus: USDA Commodities	20,732
Title I receivable	723
Title IIA receivable	3,369
Title III receivable	23
Direct Federal Awards	311,604
Manpower (WIA)	6,040
Ottawa National Forest	98,084
Schedule of Expenditures of Federal Awards	<u>\$ 773,134</u>

**L'ANSE AREA SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the year ended June 30, 2005**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

***Financial Statements***

Type of auditor's report issued: Unqualified

Internal Control over financial reporting:

- Material weakness(es) identified? No
- Reportable condition(s) identified that are not considered to be material weaknesses? None Reported

Noncompliance material to financial statements noted? No

***Federal Awards***

Internal control over major programs:

- Material weakness(es) identified? No
- Reportable condition(s) identified that are not considered to be material weaknesses? None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 520(a) of Circular A-133? No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.041	Public Law 874 - Impact Aid
84.010	Title I
10.555 (Cluster)	National School Lunch Program

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes

**SECTION II - FINANCIAL STATEMENT FINDINGS**

No matters were reported.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.



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## LETTER OF COMMENTS AND RECOMMENDATIONS

Board of Education  
L'Anse Area Schools  
L'Anse, Michigan 49946

In connection with our audit of the financial statements of the L'Anse Area Schools, as of and for the year ended June 30, 2005, the following concerns regarding the accounting records, procedures, and internal control structure came to our attention.

Our comments are based upon conditions noted during our audit and are not intended to be all inclusive. These comments are submitted as constructive suggestions to assist you in strengthening controls and procedures and are not intended to reflect on the honesty or integrity of any individual.

### Insured Deposits

We noted that approximately fifty-three percent (53%) of the School's deposits are insured by the Federal Deposit Insurance Corporation (FDIC). We recommend that deposits be extended to various financial institutions to decrease the risk of loss to the District.

### Budget Over Expenditures

Comparing actual to budgeted expenditures shows that over expenditures have occurred. P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. Over expenditures occurred in the following areas:

Description	Total Appropriations	Amount of Expenditures	Budget Variances
General Fund:			
Special Education	\$501,919	\$506,254	(\$4,335)
Operations & maintenance	\$682,045	\$693,064	(\$11,019)
Pupil transportation	\$316,307	\$354,302	(\$37,995)
Capital Projects Fund - Construction	\$26,000	\$26,351	(\$351)
School Service Fund:			
Employee Benefits	\$47,630	\$47,757	(\$127)
Commodity Foods	\$38,000	\$40,243	(\$2,243)
Athletics - Purchase services	\$23,200	\$23,402	(\$202)

We would like to thank the administrative staff for the cooperation we received during our audit. We appreciate the opportunity to present these comments and recommendations for your consideration and we are prepared to discuss them at your convenience.

This report is intended for the information of the School District's Board of Education, the cognizant audit agency and other federal and state audit agencies. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Bruce A. Rukkila, CPA, PC*

Certified Public Accountants

September 15, 2005